

Arkansas State Board of Public Accountancy

Substantial Equivalency Emergency Rules 6, 7, 10, 12 and 14

Effective July 31, 2009

## Rule 6      **NOTIFICATION OF PRACTICE UNDER SUBSTANTIAL EQUIVALENCY**

- 6.1**      ~~(a) A person holding a current certificate, license, or other authority in good standing to practice as a CPA, issued by another state, shall file notice with the Board on a form approved by the Board. The fee for this filing is found in Rule 12.~~
- ~~(b) Upon determining that the CPA qualifies to practice on the basis of substantial equivalency pursuant to A.C.A. § 17-12-311, the Board shall approve the CPA's substantial equivalence filing and provide written documentation to the CPA. The CPA shall not practice public accounting in Arkansas until the Board's approval of his qualifications.~~
- ~~(c) The filing of substantial equivalency shall expire December 31 of the year for which the filing is approved by the Board. The filing can be renewed by the CPA filing the form approved by the Board for notice to practice under A.C.A. § 17-12-311 and the fee provided in Rule 12.~~
- 6.1**      (a) Individuals practicing under substantial equivalency.
- (1) An individual whose principal place of business is not in this state and who holds a valid license as a certified public accountant from a state which the NASBA National Qualification Appraisal Service has verified to be in substantial equivalence with the CPA licensure requirements of the AICPA/NASBA Uniform Accountancy Act
- a. Has all privileges of licensees of this state without the need to obtain an Arkansas license and
- b. May offer or render professional services, other than those listed in Rule 6.1(a)(3), in person, by mail, by telephone, or by electronic means without notifying the Board, registering with the Board, or paying a fee.
- (2) An individual whose principal place of business is not in this state and who holds a valid license as a certified public accountant from a state which the NASBA National Qualification Appraisal Service has not verified to be in substantial equivalence with the CPA licensure requirements of the AICPA/NASBA Uniform Accountancy Act
- a. Must obtain verification from NASBA National Qualification Appraisal Service that the individual's CPA qualifications are substantially equivalent to the CPA licensure requirements of the AICPA/NASBA Uniform Accountancy Act.
- b. With this verification, the individual shall have all the privileges of licensees of this state without the need to obtain an Arkansas license and
- c. May offer or render professional services, other than those listed in Rule 6.1(a)(3), in person, by mail, by telephone, or by electronic means without notifying the Board, registering with the Board, or paying a fee.
- (3) An individual who qualifies for practice privileges under this section may perform the following services for a client with its home office in this state only through a firm that has registered under A.C.A. §17-12-401:
- a. A financial statement audit or other engagement to be performed in accordance with the "Statements of Auditing Standards";
- b. An examination of prospective financial information to be performed in accordance with "Statements on Standards for Attestation Engagements"; or

- c. An engagement to be performed in accordance with PCAOB Standards.
  - (4) An individual licensee of another state who is exercising the privilege to practice under substantial equivalency as defined above and the firm which employs that individual licensee consent and agree, as a condition of the exercise of this privilege to:
    - a. The personal and subject matter jurisdiction and disciplinary authority of the Board.
    - b. Comply with the Arkansas Accountancy Act and Rules of the Board, and
    - c. Cease offering or rendering professional services in this state individually and on behalf of a firm if the license from the state of the individual's principal place of business is no longer valid, and
    - d. The appointment of the board issuing the individual's license and the firm's license as the individual's agent upon whom process may be served in an action or proceeding of the Arkansas State Board of Public Accountancy against the licensee.
  - (5) An individual who passed the Uniform CPA Examination and holds a valid license issued by any other state prior to January 1, 2012 may be exempt from this state's education requirements in A.C.A. §17-12-302 for purposes of determining substantial equivalency under Rule 6.
- (b) Firms practicing under substantial equivalency.
- 1. A firm that does not have an office in this state may perform professional services other than those listed in Rule 6.1(a)(3), for a client having its home office in this state, without notifying the Board, registering with the Board, or paying a fee, provided that:
    - a. The firm meets the applicable qualifications of A.C.A. §17-12-401 and A.C.A. §17-12-507 and,
    - b. The firm performs the services through an individual who is registered with the Board or through an individual who is practicing under the provisions of substantial equivalency defined in Rule 6.1 (a)
    - c. The firm can lawfully perform the services in the state where the individual with practice privileges has a principal place of business.
  - (2) A firm practicing under substantial equivalency as defined above may not perform the following services for a client with its home office in this state based on substantial equivalency. The following services for this client may only be performed through a firm that is registered in this state:
    - a. A financial statement audit or other engagement to be performed in accordance with the *Statements of Auditing Standards*.
    - b. An examination of prospective financial information to be performed in accordance with *Statements on Standards for Attestation Engagements*, and
    - c. An engagement to be performed in accordance with PCAOB Standards.
  - (3) A firm that is exercising the privilege to practice under substantial equivalency as defined above and the responsible individuals employed by the firm consent and agree to
    - a. Personal and subject matter jurisdiction and disciplinary authority of the Board.
    - b. Comply with the Arkansas Accountancy Act and Rules of the Board, and
    - c. Cease offering or rendering professional services in this state individually and on behalf of a firm if the license from the state of the individual's principal place of business is no longer valid, and

d. The appointment of the board issuing the individual's license and the firm's license as the individual's agent upon whom process may be served in an action or proceeding of the Arkansas State Board of Public Accountancy against the licensee.

(c) An individual who held an Arkansas CPA certificate at one time whose Arkansas CPA certificate has been revoked or surrendered in connection with a disciplinary investigation or proceeding is prohibited from performing attest or compilation services or using the title "CPA" whether or not such an individual may otherwise qualify for practice privileges under Rule 6.1.

**6.2** If the CPA does not qualify under the substantial equivalency standards in A.C.A. § 17-12-311, the Board shall issue a reciprocal certificate to the holder of a certificate, license or other authority by another state provided that the CPA qualifies pursuant to A.C.A. § 17-12-308.

**6.3** Disclosure of state of licensure by individuals with practice privileges

(a) Individuals or firms practicing public accounting in Arkansas or practicing public accounting for a client with a home office in Arkansas while exercising a practice privilege shall not make any representation tending to falsely indicate that the individual or firm is licensed under A.C.A. §§ 17-12-301, 17-12-308 or 17-12-401. Such individuals/firms may truthfully identify themselves as licensed in any jurisdiction in which they hold a valid, active, unexpired license to practice as certified public accountants. For example, a practitioner could not use the term "Arkansas CPA" or otherwise state or infer licensure in Arkansas, but if true the individual or firm could use titles such as "CPA or firm licensed in Texas" or "Oklahoma CPA". Such individuals could also truthfully state that they are CPAs practicing under a practice privilege.

(b) Firms and individuals practicing public accounting in Arkansas shall provide, upon a client's or prospective client's request, accurate information on the state or states of licensure, principal place of business, contact information, and manner in which licensure status can be verified.

**6.4** Individuals ineligible for practice privileges

(a) The practice privileges described in Rule 6.1 shall not be applicable if:

- (1) The individual has been convicted of a felony under the laws of any jurisdiction.
- (2) The individual has been convicted of any crime under the laws of any jurisdiction if an element of the crime involves dishonesty or fraud, such as forgery, embezzlement, obtaining money under false pretenses, theft, extortion, conspiracy to defraud, or similar offenses.
- (3) The individual's license to practice public accounting has been suspended, revoked, or otherwise disciplined by a licensing authority in this or another state, territory, or country, for any cause other than failure to pay appropriate fees. "Disciplined" shall include the voluntary surrender of a license to resolve a pending disciplinary investigation or proceeding in Arkansas or other jurisdiction.
- (4) The individual's right to practice public accounting before any state or federal agency or before the PCAOB has been suspended or revoked.
- (5) The individual has applied for licensure as a certified public accountant in

Arkansas or other jurisdiction and that application has been denied.

(6) The individual's authority to exercise practice privileges has been  
revoked in Arkansas or other jurisdiction.

(c) Individuals precluded from exercising practice privileges under this rule may  
apply for licensure in Arkansas if otherwise qualified. The Board will  
determine when an application is submitted whether the criminal or  
disciplinary history or other regulatory action provides grounds for denial of  
licensure.

**Rule 7 OWNERSHIP OF FIRMS****7.1 DEFINITIONS**

(a) For purposes of these rules, "actively participate" means the providing of personal services in the business entity licensed in Arkansas to practice public accounting, in the nature of management, performance of services for clients, or similar activities. Individuals and entities whose primary source of income from the business entity is provided as a result of passive investment will not be considered as actively participating in the business entity.

(b) For purposes of these rules, an "owner" is defined as a person who actively participates in a business entity licensed in Arkansas to practice public accounting, and who (1) has an interest in profits and losses of such business entity, or (2) owns all, or any portion, of the equity capital of such business entity, or (3) has a vote with respect to matters of such business entity.

(c) For purposes of these rules, "profits and losses" are defined as the net taxable income or loss, determined prior to payment of any form of compensation to owners, of a business entity licensed in Arkansas to practice public accounting.

(d) For purposes of these rules, "equity capital" is defined as (a) capital stock, capital accounts, capital contributions, or undistributed earnings of a business entity licensed in Arkansas to practice public accounting; and (b) loans and advances to a business entity licensed in Arkansas to practice public accounting, made or held by its owners. "Equity capital" does not include an interest in bonuses, profit sharing plans or defined benefit plans or loans to a business entity licensed in Arkansas to practice public accounting from banks, financial institutions or other third parties that do not actively participate in such business entity.

(e) For purposes of these rules, a "business entity" is defined as a proprietorship, partnership, corporation, limited liability company or any other permissible form of practice which is licensed in Arkansas to practice public accounting.

(f)(1) "Good standing" as used in A.C.A. §§ 17-12-401, 17-12-402, 17-12- 603 (d), and Rule 7.4 (a) is defined as a CPA or PA who holds a license for the current year issued by the applicable Board.

(2) "Good standing" as used in § 17-12-504(a) and (b) means a CPA, public accountant, or a firm whose license, registration, or inactive license has not lapsed pursuant to Ark. Code Ann. § 17-12-504(f)(2).

**7.2 Corporations.** Any corporation granted a license under the Act shall be subject to the Rules of Professional Conduct. Any shareholder who ceases to be eligible to be a shareholder shall be required to dispose of all of his or her shares within a reasonable period to a person qualified to be a shareholder or to the corporation.

**7.3 Partnerships, Corporations, Limited Liability Companies, Sole Proprietorships, and Other Permissible Forms of Practice; General Requirements; Ownership.**

(a) A person who is not a certified public accountant or public accountant in this or some other state or jurisdiction but who actively participates within this state in the business conducted in Arkansas by a business entity licensed in Arkansas to practice public accounting may be an owner, director, officer, limited liability

company member, or manager in any such business entity, under the following conditions:

- (1) Such person shall not hold himself or herself out as a certified public accountant or public accountant.
- (2) The name of such person shall be provided to the Board by a business entity in connection with the granting or renewal of a license in Arkansas to such business entity.
- (3) Such person shall not have ultimate responsibility for the performance of audits, reviews or compilations of financial statements or other forms of attestation related to financial information.

(b) **Limitations; Equity Ownership.** Persons who are not certified public accountants or public accountants in this or any other state or jurisdiction but who are owners of a business entity licensed in Arkansas to practice public accounting, shall not (a) hold, in the aggregate, more than forty-nine percent (49%) of such business entity's equity capital or voting rights, or (b) receive, in the aggregate, more than forty-nine percent (49%) of such business entity's profits or losses.

(c) Sole Proprietorships. A certified public accountant operating as a sole proprietorship and engaged in Arkansas in the practice of public accounting is considered a firm.

(e\_d) **Other forms of practice.** These rules shall be applied to individuals and to any business entity licensed in Arkansas to practice public accounting in a manner consistent with carrying out the intent of these rules.

(d\_e) **Eligibility; Disqualification; Owners.** With respect to owners who are not licensed in this state or any other state or jurisdiction as certified public accountants or public accountants, if at any time the Board determines that any such owner no longer is eligible to be an owner by virtue of not being in compliance with the criteria set forth in the Public Accountancy Act and rules, such owner and the business entity in which ownership exists shall be notified that if a Board hearing is not requested within thirty (30) days of the date of mailing notification of such determination, an order will then be entered that such owner must divest himself or herself of ownership in the business entity within sixty (60) days of entry of the order.

(e\_f) **Corporations; Other Requirements.** The principal executive officer of a corporation licensed in Arkansas to practice public accounting shall be a shareholder and a director who is a licensed certified public accountant or public accountant. Directors and officers who are not licensees shall not exercise any authority whatsoever over professional matters relating to the practice of public accountancy.

## 7.4

### APPLICATION PROCEDURES; FORMS

(a) Each applicant for registration as any type of licensed business entity shall register with the Board of Public Accountancy prior to performing public accounting work in the state of Arkansas. Such registration form must include an affidavit signed by a general partner, shareholder, or member of such business entity who is a certified public accountant or public accountant of Arkansas in good standing, attesting to the accuracy of the information in the application materials.

(b) After the Board has accepted the initial registration application and has issued a license to practice, the registered business entity may practice in the state of Arkansas under the title which appears on the license to practice as the name of the business entity.

(c) Arkansas registered business entities shall renew their registration on an annual basis, on forms provided by the Board. Failure or refusal to provide complete and accurate responses to all questions on the registration renewal forms by the deadline noted on such forms may be grounds for refusal to renew such registration.

(d) Arkansas registered business entities shall include on their initial registration with the Board, and subsequent renewal of such registration, a complete listing of the names and the state of residency of all owners and the percentage of ownership and voting rights of each owner.

(e) In the case of firms with multiple offices, the licensee shall identify on its original and each renewal application each office to be registered, as prescribed on a form approved by the Board.

## **7.5 NON-RESIDENT PUBLIC ACCOUNTANTS**

A non-resident Public Accountant and an Arkansas Public Accountant or Certified Public Accountant may form a partnership or corporation for the practice of public accountancy, which shall be registered with the Board, provided that the non-resident Public Accountant holds a valid and unrevoked license in a jurisdiction having a regulatory law and, further provided that the non-resident Public Accountant shall not actively practice public accounting in Arkansas as an individual or as a partner or shareholder of the firm.

The Board will not register such a partnership or corporation if the non-resident Public Accountant lives in a state which does not have a regulatory accountancy law.

## **7.6 Practice Privilege for Out-of-State Certified Public Accounting Firms**

Non resident firms: Corporations, Limited Liability Companies, Partnerships, Sole Proprietorships, and other permissible forms of practice that are practicing in Arkansas under practice privilege are subject to the following:

(a) Ownership: A person who does not hold a current valid license as a certified public accountant in Arkansas or some other state or jurisdiction of the United States of America, but who actively participates within this state under a practice privilege firm are subject to the following conditions.

- (1) Such person shall not hold himself or herself out as a certified public accountant.
- (2) Such person shall not have ultimate responsibility for the performance of audits, reviews, or compilations of financial statements, PCAOB engagements or any other form of attestation with regard to financial information.

(b) Equity ownership limitations: Persons who are not certified public accountants or registered public accountants shall not (a) hold, in the aggregate, more than forty-nine percent (49 %) of such firm's equity



ownership or voting rights, or (b) receive, in the aggregate, more than forty nine percent (49 %) of said entity's profits or losses.

(c) Corporations, Limited Liability Companies, Partnerships, Limited Liability Partnerships, Sole Proprietorships, other requirements: The principal executive officer, managing member, or managing partner shall be a shareholder, member, or partner who is a licensed certified public accountant or public accountant, who holds a current, valid license in this or another state or jurisdiction. Directors, members, partners, and officers who are not licensees shall not exercise any authority whatsoever over professional matters relating to the practice of public accounting.

**Rule 10 REGISTRATION****10.1 INITIAL APPLICATION, RECIPROCAL, OR REINSTATEMENT**

Application for an initial license, reinstatement, or renewal shall be made on a form provided by the Board, and in the case of application for renewal, shall be filed by January 1 of each year.

**10.2 CRIMINAL BACKGROUND CHECKS**

(a) Each applicant for an initial license, including a reciprocal license, or for a new license under Ark. Code Ann. § 17-12-504(h), shall apply, using forms furnished by and pursuant to instructions provided by the Board, for state and national criminal background checks to be conducted by the Identification Bureau of the Department of Arkansas State Police and Federal Bureau of Investigation; the Board may in its discretion on reasonable cause require an applicant seeking the reinstatement of a license under Ark. Code Ann. § 17-12-504(g) to apply for the criminal background checks as provided herein.

(b) The criminal background checks shall have been completed no earlier than six (6) months prior to the date of receipt of the application, unless the delay is beyond the control of the applicant.

(c) An applicant who seeks a waiver of a conviction under paragraph (d) below must cause the following certified documentation to be transmitted directly to the Board by the court or other entity or individual that is providing documentation about the applicant:

- (1) Copies of court documents pertinent to conviction, i.e., information, indictment, or other charging documents, and judgments, orders, final rulings, or other documents specifying conviction and sanctions, and penalties; and
- (2) Documentation from the appropriate governmental official regarding the applicant's status and compliance with regard to terms of probation, parole, restitution, penalty, or any other sanctions.

(d)(1) A person convicted of a felony or crime involving moral turpitude or dishonesty in any state or federal court may not receive or hold a license as a certified public accountant or public accountant.

(2) Provided; however, upon written request submitted with the application or after receipt of the criminal background check reports, an applicant who has a criminal conviction may seek to have the conviction waived and application approved, subject to appropriate terms and conditions.

(3) The request for waiver shall not be considered until the application, fees, applicable documentation, both federal and state criminal background check reports, and written request for waiver stating the applicant's reasons why the conviction should be waived are received by the Board.

(4) The Board, after service of notice upon the applicant, shall conduct a hearing on a request for waiver of a conviction; the hearing shall be conducted pursuant to the relevant provisions of Rule 11.

**10.3** The Board will renew the license to the applicant who has complied with the registration in 10.1 provided:

- (1) the necessary information was furnished on the annual registration form;
- (2) the required fee for said registration was paid, and
- (3) there is no existing suspension of certificate, license or right to apply.

**10.4**

- (a)(1) A non-resident licensee seeking renewal of a license or practice privilege in this state can satisfy the CPE requirement of this state by meeting the comparable CPE requirements for renewal of a license, permit or registration in the state in which the licensee's principal office is located (home state).
- (2) A non-resident applicant for renewal shall be presumed to have complied with the CPE requirements in his home state by certifying that he has met the CPE renewal requirements of that state on the renewal application of this state. The Board shall annually audit a selected sample of such certifications.
- (3) A non-resident licensee practicing in this state under the practice privilege provision of A.C.A §17-12-311 must satisfy the comparable CPE requirement for renewal of a license, permit or registration in the state in which the licensee's principal office is located (home state).
- (b) If a non-resident licensee's home state has no CPE requirements for renewal of a license, permit or registration or those requirements are less than 40 hours in the past twelve months or 120 hours in the past three years, the non-resident licensee must comply with the CPE requirements for renewal of a license in this state; provided, however, any hours accepted by the Board in his home state shall be credited toward his CPE requirements in this state.

**10.5****Firm Registration**

- (a) A firm engaged in the practice of public accounting that has an office in this state must register with the Board. Application for an initial firm registration and subsequent renewal must be made on a form provided by the Board.
- (1) As defined in Rule 7, a firm includes a corporation, partnership, limited liability company, sole proprietorship, and other permissible forms of practice.
- (b) A firm engaged in the practice of public accounting that does not have an office in this state must register with the Board in order to provide the services listed below for any client whose home office is in this state. Applicants for an initial firm registration and subsequent renewals must be made on a form provided by the Board. Services requiring firm registration include:
- (1) A financial statement audit or other engagement to be performed in accordance with the Statements of Auditing Standards,
- (2) An examination of prospective financial information to be performed in accordance with Statements on Standards for Attestation Engagements, and
- (3) An engagement to be performed in accordance with PCAOB Standards.
- (c) In the case of firms with multiple offices, the licensee shall identify on its original and each renewal application each office to be registered, as prescribed on a form approved by the Board.

**RULE 12 FEES**

The fees for various services of the Board are as follows (must be paid in U. S. dollars):

**CPA EXAMINATION:****\* Application Fees – First-Time and Section Fees (non-refundable and non-transferable):**

First-time application fee.....	\$50
Applying for one section .....	\$75
Applying for two sections .....	\$90
Applying for three sections .....	\$105
Applying for four sections .....	\$120

**\* Other Costs:**

Fees for the NASBA, AICPA, and Test Delivery Provider are also collected by the Board and held for the candidate for transfer to these entities. These entities set fees separate from the Board. The Board will display such fees on the examination application.

**APPLICATION FEES (non refundable):**

CPA/PA License .....	\$50
Reciprocal Certificate .....	\$60110
Registration as a Public Accountant .....	\$50
<u>Firm Registration of Partnership, Limited Liability Company or Corporation Composed of CPAs .....</u>	<u>\$110</u>
<u>Firm Registration of Partnership, Limited Liability Company or Corporation Composed of PAs .....</u>	<u>\$110</u>
<u>Firm Registration of Sole Proprietor, Partnership, Limited Liability Company or Corporation Composed of CPAs required to register under Substantially Equivalency .....</u>	<u>\$110</u>
Reinstatement .....	\$150
Duplicate or replacement certificate .....	\$40
Transfer of Credits From Another Jurisdiction:	
Transfer Fee for Each Part.....	\$10

**ANNUAL REGISTRATION FEES**

License to Practice.....	\$110
Inactive License Status.....	\$55
Inactive/Retired.....	\$30
<del>Notification of intent to practice under "Substantial Equivalency" (SE) Provision.....</del>	<del>\$110</del>
<u>Firm Registration: Partnership, Corporations and Limited Liability Company.....</u>	<u>\$110</u>
<u>Firm Registration of Sole Proprietor, Partnership, Limited Liability Company or Corporation Composed of CPAs required to register under Substantially Equivalency .....</u>	<u>\$110</u>
Registration of each firm office in excess of one office.....	\$25
Late Fee - License to Practice/Firms/SE.....	per month \$25
Late Fee - Inactive License Status.....	per month \$10

**QUALITY REVIEW**

Fee for First Report.....\$100  
Fee for each additional type of report submitted.....\$50  
Fees are due at the time reports are submitted for review in response to QR Survey.

**Rule 14 QUALITY REVIEW PROGRAM**

- 14.1** There is hereby established a Quality Review Program (the "Program"). The purpose of the Program is to improve the quality of financial reporting and to assure that the public can rely on the fairness of presentation of financial information on which licensees issue reports. The Program emphasizes education and rehabilitation rather than disciplinary action. Appropriate educational programs or procedures will ordinarily be recommended or required where reporting does not comply with appropriate professional standards. However, when a licensee is unwilling or unable to comply with such standards, or a licensee's professional work is so egregious as to warrant disciplinary action, such action may be taken as the appropriate means of protecting the public interest.

**14.2 QUALITY REVIEW COMMITTEE**

(a) The Quality Review Committee (the Committee) will assist in the implementation and administration of the Program. The Committee's responsibilities will include:

- (1) Developing procedures for the internal operation of the Committee,
- (2) Developing criteria for assignment of reviewers to specific tasks,
- (3) Assisting the Board in the selection and training of reviewers of reports,
- (4) Evaluating the findings of the reviewers of reports and making reports and recommendations to the Board,
- (5) Compiling and reporting to the Board statistics on the impact and effect of the Program, and
- (6) Considering such other matters and performing such other duties regarding the Program as may be assigned to it by the Board from time to time.

(b) The composition of the Committee:

- (1) The Committee shall be comprised of nine licensees appointed by the Board.
- (2) The President shall annually appoint one member of the Board who shall be chair.
- (3) The remaining members shall be selected at the Board's discretion from nominees submitted by professional accounting associations or from other qualified licensees identified by the Board. Their terms shall be three years and shall be staggered.

(c) The qualifications for serving as a member are:

- (1) Licensed by and in good standing with the Board.
- (2) The licensee or firm with which he is associated has completed an acceptable peer review, pursuant to Rule 14.3(d), or has completed the Board's Quality Review, both including a minimum of one category of compilation, review, and/or audit with no substandard report within three years immediately preceding the appointment; and
- (3) The licensee or his firm has no pending investigations or disciplinary matters by the Board.

(d) The chair shall vote only in case of a tie.

**14.3 QR SURVEY**

Quality Review (QR) is to be conducted annually on one third of the licensees on a rotating basis. QR may be required more frequently as provided herein.

(a) The Board will mail a QR survey to one-third of its licensees annually. The recipient shall return the completed survey form within the time specified and submit reports, for QR purposes, when reports have been issued during the QR period as stated in the instructions

in said survey form.

(b) Failure to respond to the QR survey mailed by the Board or to submit reports for QR purposes, when reports were issued during the subject period, shall be a basis for the non-renewal of the license, after notice and hearing, as provided by Ark. Code Ann. § 17-12-507.

(c) In response to the QR survey, the licensee shall submit an audit report, review report, governmental audit report, examination of prospective financial information, and compilation report with disclosures if any were issued and, if not, a compilation report without disclosures, issued by the licensee during the 12 month period identified in the QR survey.

(d) Submission to the Board of an acceptable peer review report, performed by a CPA, PA or firm, licensed in this or another state, and the individual CPA or PA is qualified pursuant to the provisions of Rule 14.4-14.5(a)-(e), or 14.11, which is conducted consistent with a peer review program authorized by a professional accounting organization and approved by the Board, dated within the QR period or the twenty-four months immediately preceding the QR period, will exempt the licensee from QR on that type of report. For purposes of this paragraph, acceptable peer review reports shall be those classifications designated by the peer review program that are generally comparable to acceptable and marginal QR reports as defined in Rule 14.8, and which the Board identifies in its approval of the individual peer review program as comparable to acceptable and marginal QR reports.

(e) A firm or licensee registered under another jurisdiction that is not required to register in this state pursuant to A.C.A. § 17-12-311 or A.C.A. § 17-12-401 and that performs engagements for clients in this state that are performed in accordance with Statements on Standards for Accounting and Review Services (SSARS), such as compilations and review, must receive an acceptable peer review performed by a CPA, PA or firm in lieu of the Quality Review required under Rule 14.3 or must receive an acceptable quality review performed under the rules of the state of licensure.

#### **14.4 QR REVIEWERS**

The QR reviewers shall have the following qualifications:

- (a) Licensed by and in good standing with the Board,
- (b) The licensee or firm in which he is associated has completed an acceptable peer review pursuant to Rule 14.3(d), or has completed the Board's Quality Review both including a minimum of one category of compilation, review, and/or audit with no substandard report within three years immediately preceding the appointment,
- (c) The licensee or his firm has no pending investigation or disciplinary matters by the Board, and
- (d) Shall have a minimum of 5 years experience in accounting and auditing, including experience in the type of report he will be reviewing.

#### **14.5 TEAM CAPTAINS**

Team captains shall have the following qualifications:

- (a) Licensed by and in good standing with the Board,
- (b) The licensee or firm in which he is associated has completed an acceptable peer review pursuant to Rule 14.3(d), or has completed the Board's Quality Review both including a minimum of one category of compilation, review, and/or audit with no substandard report within three years immediately preceding the appointment,
- (c) The licensee or his firm has no pending investigation or disciplinary matters by the Board, and
- (d) Shall have a minimum of 5 years experience in accounting and auditing, including

experience in the type of report he will be reviewing.

(e) Shall have served as a quality reviewer for a minimum of one year, and

(f) Shall be approved by the QR Consultant.

#### **14.6 QR CONSULTANT**

The QR consultant shall have the following qualifications:

(a) Licensed by and in good standing with the Board,

(b) The licensee or firm in which he is associated has completed an acceptable peer review pursuant to Rule 14.3(d), or has completed the Board's Quality Review both including a minimum of one category of compilation, review, and/or audit with no substandard report within three years immediately preceding the appointment,

(c) The licensee or his firm has no pending investigation or disciplinary matters by the Board, and

(d) Shall have a minimum of 5 years experience in accounting and auditing, including experience in the type of reports he will be reviewing, and

(e) Shall be approved by the Board.

#### **14.7 QR PROCEDURE**

The QR process shall include:

(4a) Review and classification of the report and a statement of reasons for the classification by an assigned reviewer.

(2b) Review of that classification and reasons therefore by the QR team captain who may make appropriate changes after consulting with the assigned reviewer.

(3c) Review of that classification and reasons therefore by the Board's QR Consultant who may make appropriate changes after consulting with both the assigned reviewer and team captain.

#### **14.8 QR CLASSIFICATIONS**

The QR will result in a determination whether each report is acceptable, marginal, or substandard.

(a) "Acceptable" means that the report contains no deficiencies or only minor deficiencies.

(b) "Marginal" means that the report contains more serious deficiencies, such as departures from the technical reporting or accounting standards set forth in Board Rule 8, but of the type that will not render the statement materially inaccurate or misleading.

(c) "Substandard" means that the report is materially inaccurate or misleading; such a report violates one or more significant reporting standards, seriously departs from Generally Accepted Accounting Principles, or does not include material disclosures necessary for a fair presentation

(d) "Deficiency" means a failure to comply with any provision in the Professional Standards identified in Board Rule 8.

#### **14.9 NOTIFICATION AND RESPONSE**

(a) The licensee will be notified in writing of the QR classification of each report. Notice of marginal and substandard reports shall be by certified mail, return receipt requested. No response is necessary for an "acceptable" or "marginal" classification, and QR will be closed. If the licensee who has received a marginal classification disagrees, he should notify the Board in writing within 30 days. The notification will instruct the licensee who has received a substandard classification to reply to the Board in writing within 30 days.



(b) **Marginal Classification.** If the licensee agrees with the marginal classification, no reply is necessary and the QR is complete. However, if the licensee disagrees with the classification, he may, but is not required to file a notice including an explanation of his objection, citations to applicable professional standards, and any relevant documentation supporting his objection to the classification for consideration by QR Consultant. This notice must be written and filed with the Board within 30 days. After reconsideration of the Summary of Deficiencies and Comments, original documents from the licensee, and any supplemental information from the licensee that may have been requested by the QR Team, the QR Consultant will affirm the classification of or reclassify the licensee's report. The licensee will be notified of this result in writing for informational purposes. The QR will be closed and the licensee will remain in the same QR cycle.

(c) **Substandard Classification.**

(1) **First substandard classification.**

(A) Within 30 days the licensee shall respond in writing to the Board's notification of a first substandard classification stating whether he agrees or disagrees with that classification.

(B) If the licensee agrees with the substandard classification, the Board shall request that the licensee obtain 16 hours of CPE in specific subjects. In the event there is another substandard classification on a different type of report in the same QR cycle, additional CPE may be requested. Said CPE is intended to be educational, for the purpose of improving the quality of the licensee's reports, rather than disciplinary in nature, shall not be self-study, and shall be approved in advance by the Board's Executive Director. The licensee shall complete said CPE hours and deliver acceptable documentation thereof to the Board on or before June 30 of the following year.

(C) If the licensee disagrees with the substandard classification, he may deliver written notice to the Board within 30 days explaining the objection to the classification, citation to applicable professional standards and any relevant documentation supporting the licensee's objection to the classification. The QR Consultant shall review the Summary of Deficiencies and Comments, original documents from the licensee, and any supplemental information from the licensee that may have been requested by the QR Team, and will affirm the classification of, or reclassify the licensee's report. The licensee will be provided written notice of the QR Consultant's review of the report by certified mail, return receipt requested.

(D) The licensee can request that the QR Committee review the QR Consultant's reconsideration of the classification of the licensee's report. Said request shall be filed with the Board in writing within 30 days.

(E) The QR Committee will consider the classification based upon all records considered by the QR Consultant as described by paragraph (b) and determine the appropriate classification for the report. The licensee will be notified of the Committee's classification of the report in writing by certified mail, return receipt requested.

(F) The licensee can appeal the QR Committee's decision on the classification, and obtain a hearing by the Board by filing a written notice of appeal with the Board within 30 days. The Board shall notify the licensee of the time and place of the hearing and shall consider the classification of the report based solely upon the record considered by the QR Consultant and QR Committee, as per paragraph (b). When the evidence of record that the report is substandard is considered, the Board will consider all relevant facts. Should the facts show convincingly that the report is substandard, the Board will consider the report substandard. If the evidence of record is equally balanced, or the Board cannot find that the facts are convincing, the Board shall determine that the report is not

substandard. Should the Board find that the report is substandard, it may require appropriate action by the licensee that is designed to assure that the licensee's professional services are performed consistent with applicable professional standards as provided under these procedures.

(G) Following any first substandard classification of the report that becomes final prior to appeal to the Board, the licensee will be requested to obtain the 16 hours of CPE as stated in paragraph 14.9(c)(1)(B) above. Upon request of the licensee, or should the licensee not agree to obtain CPE described above, fail to complete said CPE, or fail to timely deliver satisfactory documentation thereof to the Board, the Board shall conduct a hearing to determine whether the licensee has failed to comply with the Code of Professional Conduct and the Public Accountancy Act of 1975, Ark. Code Ann. § 17-12-101 et seq. and, if so, the necessary corrective action to be taken to improve the quality of the licensee's reports or to otherwise protect the public interest.

**(2) Second consecutive substandard report.**

(A) Within 30 days the licensee shall respond in writing to the Board's notification of a second substandard classification stating whether he agrees or disagrees with that classification.

(B) If he agrees with the classification, the licensee will be requested to submit all of the types of reports classified as substandard to a licensee approved by the Board for pre-issuance review pursuant to the Board's current Pre-Issuance Review Procedures that shall be provided to the licensee.

(C) If the licensee disagrees with the substandard classification, he will be instructed to file notice including an explanation of his objection to the classification, citation to applicable professional standards, and any relevant documentation supporting his position for reconsideration by QR Consultant. The provisions set forth in subparagraph 14.9(c)(1)(D-G) for reconsideration by the QR Consultant, for review by the QR Committee and appeal to the Board are also applicable to second consecutive substandard reports.

(D) Upon appeal, should the Board find that the report is substandard, it may require that the licensee take action deemed appropriate by the Board to assure the licensee's professional services are performed consistent with applicable professional standards or to otherwise protect the public interest.

(E) If at any stage of the QR procedure in this subparagraph 14.9(c)(2) pertaining to second consecutive substandard reports, the licensee fails to respond to the notice of the classification of the report as substandard in the original review or upon reconsideration by the QR Consultant or review by the QR Committee, the Board will determine whether to schedule a hearing to find whether the licensee's report is substandard and whether the Board shall require the licensee to obtain pre-issuance review and subsequent QR pursuant to the Board's current Pre-Issuance Review Procedures or take other action appropriate to protect the public interest.

**(3) Third consecutive substandard report.**

(A) Within 30 days the licensee shall respond in writing to the Board's notification of third substandard classification stating whether he agrees or disagrees with that classification.

(B) If the licensee agrees with the classification, the Board will determine whether to conduct a hearing to consider whether the licensee's report violates the Board's Code of Professional Conduct and the Public Accountancy Act of 1975, Ark. Code Ann. § 17-12-101 et seq.

(C) If the licensee disagrees with the substandard classification, he will be instructed to file notice including an explanation of the objection to the classification, citation to applicable professional standards and any relevant documentation supporting his position for consideration by QR Consultant.

(D) The procedure set forth in subparagraph 14.9(c)(1)(D-G) for reconsideration by the QR Consultant, for review by the QR Committee and appeal to the Board are also applicable to third consecutive substandard reports.

(E) Upon appeal, should the Board find that the report is in violation of the Code of Professional Conduct or the Public Accountancy Act of 1975, Ark. Code Ann. § 17-12-101 et seq., it may take appropriate action to protect the public interest.

(F) If at any stage of the QR procedure in this paragraph 14.9(c)(3), the licensee fails to respond to the notice of the classification of the report as substandard in the original review or upon review by the QR Consultant or review by the QR Committee, the Board will determine whether to schedule a hearing to determine whether the licensee has violated the Board's Code of Professional Conduct or the Public Accountancy Act of 1975, Ark. Code Ann. § 17-12-101 et seq., and the appropriate action to be taken as a result of the violations found.

(G) Consent orders. At any stage in the QR process, when a licensee will agree not to perform any further reports that have been classified as substandard or to other appropriate action to protect the public interest, the Board may resolve the controversy by an appropriate Consent Order.

#### **14.10 PRE-ISSUANCE REVIEW PROCEDURES**

(a) Pre-Issuance Reviewer (Reviewer) shall be a CPA or PA currently holding an Arkansas license to practice public accountancy, who has undergone quality or peer review within the past 3 years with reports thereon determined to be acceptable pursuant to Rule 14.3(d), and approved by the Board prior to performing pre-issuance reviews for the subject Accountant (Respondent). Prior to performing any pre-issuance review services, the Reviewer shall deliver a written confirmation to the Board to provide pre-issuance review of each financial statement or related attestation report (cumulatively "Report") prepared by the subject respondent for the period of the engagement. The Respondent whose Reports are being reviewed shall be solely responsible for any expense for the pre-issuance review.

(b) Reviewer shall review, prior to release to Respondent's client, each Report as identified above to determine compliance with professional standards identified in Board Rule 8 or otherwise applicable to the particular type of Report and shall authorize the release of a Report only after making a written determination that the Report complies with said standards. In the event a submitted Report does not comply with said standards, the reviewer shall provide written comments or instructions for the Respondent to revise the Report in compliance with applicable professional standards.

(c) Reviewer shall maintain a pre-issuance review file on each Report review performed. The file shall contain each original Report submitted to reviewer, the reviewer's written comments or instructions in any form regarding necessary revisions for the Report to comply with professional standards, any revised Report(s) and the Report approved for release to the client. Reports reviewed and found acceptable with no change shall be clearly noted on the file Report, "Accepted-No Change Required".

(d) Reviewer shall maintain the pre-issuance review files for a minimum of five years after each pre-issuance review engagement is completed and shall make said records available to the Board upon request.

(e) Reviewer shall submit a written report to the Arkansas Board of Public Accountancy every ninety (90) days following the date of the Reviewer's confirmation to the Board. The report shall contain a summary of the number and type of Reports reviewed, number of Reports with no change required, and number of Reports requiring amendment. For Reports requiring change, a copy of each original Report submitted by Licensee, Reviewer notations, and/or comment sheet(s) and the revised and approved Report(s) must

accompany the report.

(f) Reviewer may recommend in writing with accompanying supporting documentation that the Respondent be released from continuing pre-issuance review. Should the Board determine that the Respondent appears to have demonstrated an ability to issue Reports in compliance with applicable professional standards without the necessity of continuing pre-issuance review, it shall terminate the pre-issuance review, but may require the Respondent to participate in annual quality review for a specific or indefinite term.

#### **14.11 PEER REVIEWER STANDARDS**

(a) In order to qualify to perform peer review for the exemption from Quality Review requirements of 14.3, an individual licensee must have the applicable qualifications for reviewers set forth in Rules 14.4, or supervisors set forth in Rules 14.5, except 14.5(f) for team captains.

(b) An individual peer reviewer not licensed or registered in Arkansas under Ark. Code Ann. § 17-12-301 et seq., shall ~~register with the Board~~ meet the requirements pursuant to Ark. Code Ann § 17-12-311.

~~(c) The individual CPA or PA and firm shall register with the Board and obtain documentation of Board approval of the peer review registration prior to performing peer review services in Arkansas.~~